Is the angst over AI spending and Fed inaction warranted?

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Key takeaways

Concerns continue about artificial intelligence (AI) spending. But if AI restructures the global economy, today's investment levels may one day look modest compared to what's needed.

Some worry that the Federal Reserve (Fed) is behind the curve in fighting inflation. But markets continue to signal confidence that inflation should remain contained over the medium term.

Leadership has been rotating, expectations have been resetting, and some investors are questioning assumptions after a remarkable run. I see these as healthy developments, not a fundamental market deterioration.

There is growing angst among investors today. Market drawdowns and bouts of volatility are a normal part of investing, but they inevitably raise the same question: Has something meaningful changed? The recent weakness in the technology sector, particularly among chipmakers and memory companies, has amplified those concerns. Headlines have described the move as carnage, and from the perspective of recent price action, that characterization is understandable. Yet the term loses some of its impact when viewed in a broader context. Many of the companies at the center of the selloff remain significantly higher year to date1, following extraordinary gains over the past several quarters.

Stepping back, the broader market doesn't look like it's falling apart.

Credit markets, often a more reliable indicator of underlying economic stress, have remained remarkably resilient — credit spreads have been contained, suggesting little concern about deteriorating growth or financial conditions.2

Meanwhile, the S&P 500 Equal Weight Index has continued to push toward new highs.3

That's not the behavior of a market signaling recession or systemic trouble. Rather, it looks more like a consolidation within the most crowded and successful segment of the market after a historic advance.

Two critical issues: AI and the Fed

At the heart of the current debate are two critical questions.

First, have the hyperscale technology companies overinvested in the race for AI compute? If so, demand for chips, memory, networking equipment, and related infrastructure could eventually disappoint.

Second, has the Federal Reserve fallen behind in its effort to contain inflation, forcing interest rates higher and putting pressure on equity valuations?

I find myself taking the other side of both arguments.

AI: An economic force that may warrant today’s spending

Consider the technology story first. The selloff has not occurred against a backdrop of weakening demand. In fact, the fundamental data point in the opposite direction. Earnings across much of the AI ecosystem have remained strong. Backlogs for key providers continue to expand, indicating that customers are still seeking capacity faster than can be delivered.4 If anything, the challenge remains supply rather than demand. The market's concern is not that AI adoption has stalled, but whether current investment levels have gotten ahead of future returns.

That distinction matters. Ultimately, the debate comes down to how investors frame the opportunity. If AI is simply another software upgrade cycle, then concerns about overspending are understandable. But if AI represents a restructuring of the global economy, the implications are far larger. The latter view is more compelling. Artificial intelligence is increasingly touching every sector, from health care and manufacturing to financial services and education. If that proves correct, today's investment levels may eventually look modest relative to what may be required over the next decade. The buildout of compute, power infrastructure, networking capacity, and data centers could have much further to run than many investors currently envision.

Inflation: The Fed doesn’t appear behind the curve

On the inflation front, the evidence also argues against a more pessimistic interpretation of the Fed’s stance on rates. Inflation expectations have remained well anchored.5 Financial markets offer a real-time check on these concerns, and neither the inflation swap market6 nor Treasury breakeven rates suggest investors expect a meaningful inflation problem ahead. Markets are forward-looking, and they continue to signal confidence that inflation should remain contained over the medium term. If inflation expectations are stable, it becomes difficult to build a strong case that the Federal Reserve is materially behind the curve.

Is the bull market over, or just on pause?

None of this means volatility is over or that technology stocks cannot experience further corrections. Momentum-driven sectors often overshoot in both directions. But it is important not to confuse a momentum unwind with a fundamental deterioration. The broader market, credit conditions, inflation expectations, and the underlying demand trends surrounding AI all point toward a different conclusion.

The upshot is that what we are witnessing appears less like the end of a cycle and more like a consolidation within one. Leadership is rotating, expectations are resetting, and investors are questioning assumptions after a remarkable run. Those are healthy developments. The weight of the evidence suggests this remains a structural bull market experiencing a pause, not a market confronting a broken narrative.

Source: Bloomberg, L.P. Jun. 29, 2026. Based on the Philadelphia Semiconductor Index, which has advanced 47.49% year-to-date.

Source: Bloomberg, L.P. Jun. 29, 2026. Based on the option-adjusted spread of the Bloomberg US Corporate Bond Index.

Source: Bloomberg, L.P. Jun. 29, 2026. Based on the S&P 500 Equal Weight Index.

Source: investing.com, “AI Order Backlogs Keep Growing as Wall Street Rewards Demand,” July 22, 2026

Source: Bloomberg, L.P. Jun. 29, 2026. Based on the 5-year US Treasury Inflation Breakeven.

Source: Bloomberg, L.P. Jun. 29, 2026. U.S. inflation expectations as measured by the inflation swap market (5-year, 5-year forward inflation swaps, which are a market-based measure of expected inflation for the five-year period that begins five years from now).

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn’t ensure product or service success.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

The S&P 500® Equal Weight Index is the equally weighted version of the S&P 500® Index.

The Philadelphia Semiconductor Index tracks the performance of leading companies involved in designing, manufacturing, and selling semiconductors and related equipment.

Credit spread is the difference in yield between bonds of similar maturity but with different credit quality.

Breakeven inflation is the difference in yield between a nominal Treasury security and a Treasury Inflation-Protected Security of the same maturity.

Option-adjusted spread (OAS) is the yield spread that must be added to a benchmark yield curve to discount a security’s payments to match its market price, using a dynamic pricing model that accounts for embedded options.

Treasury Inflation-Protected Securities (TIPS) are US Treasury securities that are indexed to inflation.

The opinions referenced above are those of the author as of July 30, 2026. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.

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